

COMMONWEALTH OF KENTUCKY
BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

THE APPLICATION FOR ADJUSTMENT OF)
RATES OF PROMOTIONAL INDUSTRIES, INC.) CASE NO. 7779

O R D E R

On March 24, 1980, Promotional Industries, Inc., hereinafter also referred to as the Applicant, filed with this Commission its petition seeking approval of a proposed increase in its sewerage service rates.

The case was set for hearing at the Commission's offices in Frankfort, Kentucky, on August 6, 1980. All parties of interest were notified in the manner prescribed by the Kentucky Revised Statutes. The Consumer Intervention Division of the Attorney General's office was an intervenor of record in this matter.

The complete record and testimony in this matter has been considered by the Commission in making this Order.

TEST PERIOD

The applicant has proposed and the Commission has adopted the twelve (12) months ending December 31, 1979, as the test period for determining the reasonableness of the proposed rates. Proforma adjustments have been included where found fair, just and reasonable.

FINDINGS IN THE MATTER

The Commission, after consideration of all the evidence of record and being advised, is of the opinion and finds:

1. That in this instance, the determination of rates and revenue requirements should be based on the operating ratio⁽¹⁾ method.

(1) Operating ratio is defined as the ratio of expenses, including depreciation and taxes, to gross revenues

$$\text{Operating Ratio} = \frac{\text{Operating Expenses plus Depreciation Expenses and Taxes}}{\text{Gross Revenues}}$$

2. That the rates as prescribed and set forth in Appendix "A", attached hereto and made a part hereof, should produce annual revenues of \$53,400 and are the fair, just and reasonable rates to be charged for sewerage service by the Applicant to customers located in its service area.

3. That the rates proposed by the Applicant are unfair, unjust and unreasonable in that they would produce revenues in excess of those found reasonable herein and should be denied.

4. That an operating ratio of 0.88 will result from the revenues produced by 455 total customers and should provide a reasonable return margin in this instance.

5. That the Applicant proposed several proforma adjustments to revenues and expenses as reflected on its Income Statement. The Commission will accept in full for rate-making purposes some of these proposed adjustments. However, those rejected or modified are more fully discussed below:

- A. The contract for Management Fee from D & W Construction Co., states a monthly charge of \$650 or \$7,800 annually. The Applicant requested \$6,900 and the Commission has used \$7,800 in this instance.
- B. The water cost requested by the Applicant is \$1,293. The Applicant acknowledged that a water line loss was included in its request. The water line loss cannot be included for rate-making purposes, therefore, the Commission found \$600 to be reasonable.
- C. The cost of Sludge Hauling of \$3,120 was a cost for two years. The Commission finds that \$1,600 a reasonable expense for one year.

- D. The Reserve Fund was disallowed in total. The record in this case reveals that the Company has used this fund for a maintenance repair fund instead of accumulating a balance in the fund for major replacements. Therefore, the Commission has disallowed this Reserve Fund for rate-making purposes.
- E. The requested \$4,277 for interest expense on the note payable to Liberty National Bank and Trust Co., has been reduced by \$1,510 (9 3/4% X \$15,499) to an amount of \$2,767. This reduction was made to reflect the fact that the Company has made non-interest bearing loans to stockholders of \$15,499. The customer should not be required to pay rates to cover interest on funds loaned to the company's stockholders at zero cost, and these funds obviously have not been used to provide service to the customer.
- F. Income Taxes were modified from \$1,631 to \$1,546.
- G. The following is a schedule showing the effect on operating income after the above revenue and expense adjustments.

| | <u>Actual</u> | <u>Proforma Requested</u> | <u>Proforma Found Reasonable</u> |
|--------------------|---------------|---------------------------|----------------------------------|
| Operating Revenue | \$44,247 | \$58,748 | \$53,242 |
| Operating Expenses | <u>39,691</u> | <u>51,763</u> | <u>46,855</u> |
| Operating Income | \$ 4,556 | \$ 6,985 | \$ 6,387 |

IT IS THEREFORE ORDERED:


1. That the rates prescribed and set forth in Appenxix "A", attached hereto and made a part hereof, be and are hereby fixed as the fair, just and reasonable rates of Promotional Industries, Inc., providing sewage disposal services to customers located in its service area and shall become effective for services rendered on and after the date of this Order.

2. That the rates requested by Promotional Industries, Inc., be and the same are hereby denied.

3. That Promotional Industries, Inc. shall file with this Commission, within thirty (30) days from the date of this Order, its tariff sheets setting forth the rates approved herein, Further, that copies of all the Applicant's rules and regulations for providing service to customers located in Jefferson County, Kentucky shall be filed with the said tariff sheets.

Done at Frankfort, Kentucky, this 29th day of August, 1980.

UTILITY REGULATORY COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary

APPENDIX "A"

APPENDIX TO AN ORDER OF THE UTILITY REGULATORY
COMMISSION IN CASE NO. 7779 DATED AUGUST 29, 1980.

The following rates are prescribed for sewer services
rendered to all customers served by Promotional Industries, Inc.,
in Jefferson County, Kentucky.

Customer Category

Residential

Monthly Rates

| | |
|---------------------------|------------------------------------|
| Single-Family Residential | \$9.90 per single-family residence |
| Multi-Family Residential | 8.40 per apartment |

Special Contracts

| | |
|---------------------------------|-----------------------------|
| Farmdale Church of the Nazarene | \$53.00 flat rate per month |
| Christian Assembly Church | 53.00 flat rate per month |
| Outer Loop Shopping Center | 72.50 flat rate per month |
| Pizza Hut Restaurant | 72.50 flat rate per month |

Future Customers

*Per Residential Equivalent

| | |
|------------------------------|-----------------------------|
| Commercial - 6500 Outer Loop | \$39.60 flat rate per month |
| 6540 Outer Loop | 10.30 flat rate per month |

*Each 400 GPD Sewer loading, as indicated by metered water usage,
is one residential equivalent.